

REPORT BY THE  
AUDITOR GENERAL  
OF CALIFORNIA

---

**STATE AGENCIES NEED TO IMPROVE  
THEIR CASH MANAGEMENT PROCEDURES**

---

REPORT BY THE  
OFFICE OF THE AUDITOR GENERAL

F-506

STATE AGENCIES NEED TO IMPROVE  
THEIR CASH MANAGEMENT PROCEDURES

JULY 1986



Telephone:  
(916) 445-0255

STATE OF CALIFORNIA  
**Office of the Auditor General**  
660 J STREET, SUITE 300  
SACRAMENTO, CA 95814

Thomas W. Hayes  
Auditor General

July 30, 1986

F-506

Honorable Art Agnos, Chairman  
Members, Joint Legislative  
Audit Committee  
State Capitol, Room 3151  
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the need for improvement in state agencies' cash management procedures. State agencies need to improve their billing, collection, and depositing practices in order to maximize revenues due to the State. The State could earn thousands of dollars each year by implementing better cash management procedures.

Respectfully submitted,

*Tom Hayes*  
THOMAS W. HAYES  
Auditor General  
f2

## TABLE OF CONTENTS

	<u>Page</u>
<b>SUMMARY</b>	S-1
<b>INTRODUCTION</b>	1
<b>AUDIT RESULTS</b>	
STATE AGENCY CASH MANAGEMENT PROCEDURES NEED IMPROVEMENT	5
CONCLUSION	17
RECOMMENDATIONS	17
<b>APPENDIX</b>	
DEFICIENCIES NOTED DURING REVIEW DISTRIBUTION BY STATE AGENCY	21
<b>RESPONSES TO THE AUDITOR GENERAL'S REPORT</b>	
BUSINESS, TRANSPORTATION AND HOUSING AGENCY	
Department of Alcoholic Beverage Control	25
Department of Housing and Community Development	27
Department of Insurance	29
CALIFORNIA STATE UNIVERSITY	33
DEPARTMENT OF FORESTRY	35
DEPARTMENT OF INDUSTRIAL RELATIONS	37
PUBLIC UTILITIES COMMISSION	39
STATE AND CONSUMER SERVICES AGENCY	
Contractors' State Licensing Board	41

## SUMMARY

---

### RESULTS IN BRIEF

The State of California collected about \$59 billion in fiscal year 1984-85 in personal and corporate taxes, fees, and other revenues. Taxes, which represent approximately 50 percent of state revenues, are collected primarily by the Franchise Tax Board, the Board of Equalization, and the Employment Development Department. Since the cash management procedures at these agencies were recently studied by the Commission on California State Government Organization and Economy (Little Hoover Commission), we reviewed the fee and revenue collection efforts at 11 other state agencies. We found that the slow billing, collection, and deposit of cash at 6 of these agencies cost the State over \$660,000 in interest, revenue, and penalties during fiscal years 1984-85 and 1985-86. This \$660,000 was identified through a limited sample of cash receipts; it does not represent the total amount of income lost. This lost income does, however, illustrate the need for better cash management procedures at state agencies that collect fees.

---

### BACKGROUND

The State of California collects many different kinds of revenue, including individual and corporate income taxes, college admission fees, and automobile registration fees. The Financial Integrity and State Manager's Accountability Act of 1983 requires the head of each state agency to evaluate the adequacy of the agency's internal control system either annually or biennially. Since sound cash management procedures are an integral part of a department's overall internal control system, California state law and the State Administrative Manual provide guidelines for state agencies to use in their billing, collecting, and depositing of cash. The purpose of these guidelines is to ensure that

agencies establish and follow prudent management practices in their accounts receivable and cash receipt activities. We reviewed adherence to these guidelines at the following agencies:

Department of Alcoholic Beverage Control  
Contractors' State License Board  
Department of Housing and Community Development  
Department of Insurance  
Public Utilities Commission  
Department of Savings and Loan  
Bureau of Automotive Repair  
California State University  
Department of Forestry  
Department of Industrial Relations  
Board of Medical Quality Assurance

---

## **PRINCIPAL FINDING**

---

### **State Agency Cash Management Procedures Need Improvement**

Six of the 11 state agencies we reviewed were not using the billing, collection, or depositing procedures required by statute and the State Administrative Manual. Two state agencies lost an estimated \$11,400 in interest earnings because of delays in billing for receivables. Four state agencies lost an estimated \$188,700 in revenue, penalty fees, and interest income because of inadequate collection procedures and had not yet collected an estimated \$608,600 that had been owed for six months or more. Finally, four state agencies lost an estimated \$464,000 in interest earnings because of delays in depositing cash receipts.

---

## **RECOMMENDATIONS**

To improve cash management procedures, department directors should take the following actions:

- Establish procedures to ensure that billings for receivables are sent promptly and that invoices contain correct information;

- Establish procedures to ensure that billings for receivables are sent promptly and that invoices contain correct information;
- Establish and implement collection procedures as mandated by law and the State Administrative Manual; and
- Establish depositing procedures so that cash received totaling over \$5,000 is deposited on the day of receipt, or if not practical, by the following day.

---

#### **AGENCY COMMENTS**

Generally, the departments agreed that there are some weaknesses in current billing, collecting, and depositing procedures. Some departments noted that, to be efficiently implemented, our recommendations would require new or improved management information systems. Also, some departments noted that, although optimally all collections would be made within six months, the amounts of long-outstanding collections are relatively small compared to the total amount of billed revenues.

## INTRODUCTION

The State of California collects many different kinds of revenue, such as individual and corporate income taxes, college admission fees, and automobile registration fees. In fiscal year 1984-85, total state revenues amounted to approximately \$59 billion. Methods of assessment range from self-assessments to direct billings for services rendered.

The heads of state agencies are responsible for establishing and maintaining systems of internal accounting and administrative control. The Financial Integrity and State Manager's Accountability Act of 1983 requires the head of each state agency to evaluate the agency's internal control system either annually or biennially. Sound cash management procedures are an integral part of an agency's overall internal control system.

California state law and the State Administrative Manual (SAM) provide procedures for state agencies to use in their billing, collecting, and depositing cycles. The purpose of these procedures is to ensure that agencies establish and follow prudent practices in managing their accounts receivable and cash receipts.

The SAM requires each agency to send an invoice or another type of claim document as soon as possible after a claim is identified. In addition, the SAM requires each agency to develop collection

procedures that will ensure prompt follow-up on receivables. These collection procedures are to include, but are not limited to, collection letters, offset measures, and, if necessary, court action. Further, the SAM requires agencies to deposit funds of \$5,000 or more on the day they are received unless they are received late in the day or for some other reason it is not practical to deposit them before bank closing time.

For certain types of billings, state law mandates the dates by which invoices or applications must be sent, the dates by which payments are due, and the dates at which payments are delinquent. State law also specifies when agencies may charge delinquency fees and how much they may charge.

#### SCOPE AND METHODOLOGY

The purpose of this audit was to review the State's billing, collection, and depositing procedures to determine if losses result to the State from (1) delays in billing for receivables; (2) deficient collection procedures; and (3) delays in depositing cash receipts.

We examined the billing, collection, and depositing procedures of 11 agencies located throughout the State. For one agency, the California State University, we visited four campuses. During fiscal year 1984-85, the 11 agencies we reviewed reported revenues of approximately \$431 million and include the following:

Department of Alcoholic Beverage Control	Bureau of Automotive Repair
Contractors' State License Board	California State University
Department of Housing and Community Development	Department of Forestry
Department of Insurance	Department of Industrial Relations
Public Utilities Commission	Board of Medical Quality Assurance
Department of Savings and Loan	

The major revenue-collecting agencies, such as the Board of Equalization, the Franchise Tax Board, and the Employment Development Department, were included in the scope of a recently completed cash management report issued by the Commission on California State Government Organization and Economy (Little Hoover Commission). During the 1984-85 fiscal year, these departments collected \$28 billion in revenue, which amounted to 47 percent of the State's total revenue for the year.

During the audit, we interviewed agency personnel, reviewed policies and procedures, and examined files and reports of the agencies. We then compared the agencies' activities with guidelines established in state law or in the SAM.

## AUDIT RESULTS

### STATE AGENCY CASH MANAGEMENT PROCEDURES NEED IMPROVEMENT

Several state agencies that collect fees have procedures that result in a loss of interest income to the State and in uncollected receivables. At 6 of the 11 agencies we reviewed, the State lost an estimated \$664,100 in revenues, penalty fees, and interest earnings during fiscal years 1984-85 and 1985-86 and had not yet collected an estimated \$608,600 that had been owed for six months or more. The State lost an estimated \$11,400 in interest earnings because of delays in billing for receivables; an estimated \$188,700 in revenue, penalty fees, and interest income because of inadequate collection procedures; and an estimated \$464,000 in interest earnings because of delays in depositing cash receipts.

#### Delays in Billing

The California State University at Long Beach did not bill for student fees for at least two months after the fees were due. In addition, the Department of Insurance sent invoices one or two days before fees for certificates of authority were due, and the invoices specified a delinquency date that was 14 days later than the delinquency date stated in the California Insurance Code. Because of these late billings, the State did not receive an estimated \$11,400 in interest earnings.

The Insurance Code establishes due dates and delinquency dates for Department of Insurance fees. In addition, the State Administrative Manual (SAM) Section 8776.3 requires that state agencies prepare and send billings as soon as possible after a claim is identified.

The California State University at Long Beach (CSU-Long Beach) delayed billing students for fees for the fall 1985 semester for approximately 79 days. We randomly selected for review 15 of the 116 invoices related to overdue fees. The reviewed invoices represented 39 percent of the billed student fees. In many cases, the students were not billed until after the semester had ended. Based on an average delay of 79 days, we estimate the State may have lost approximately \$9,500. According to the business manager for the CSU-Long Beach, billings were delayed because, unlike other campuses, CSU-Long Beach did not have an automated system to bill students who paid insufficient fees.

At the Department of Insurance, we reviewed billings for the 1986 renewal fees for insurance company certificates of authority, which authorize the companies to transact business in the State. Data provided to us by the department indicated that these fees amounted to approximately \$458,000. The billings for these fees were not mailed until one or two days before March 1, the date by which the Insurance Code requires the fees to be paid. In addition, the department's invoices specified a delinquency date that was 14 days later than that

required by the Insurance Code. According to the chief of the Division of Administration, the billings were sent late because of a delay in completing a change to an automated billing system. The chief also stated that he was unaware of a decision to change the delinquency date. As a result of these delays, the State lost approximately \$1,900 in interest revenue, and the Department of Insurance was not in compliance with the law.

#### Inadequate Collection Procedures

The Department of Insurance, the Department of Industrial Relations, the Department of Forestry, and the California State University have not established or are not using adequate procedures to collect past due accounts. At both the Department of Industrial Relations and the California State University at Los Angeles, the reports used to identify how long billings remain unpaid were incorrect. In addition, at the Department of Industrial Relations, two groups of employees were using inconsistent procedures to collect outstanding receivables, and penalty fees were not assessed on late billings. Consequently, the State lost an estimated \$188,700 in revenue, penalty fees, and interest income and did not collect approximately \$608,600 in receivables that was outstanding for six months or more.

The loss in revenue, penalty fees, and interest income occurred at least in part because these agencies did not comply with

collection requirements mandated by the SAM. The SAM requires three collection letters with a progressively stronger tone to be sent at 30-day intervals. The SAM also states that, as soon as agencies have indications that a debtor will not pay, they may notify the Franchise Tax Board of amounts owed so that it can reduce the debtor's state income tax refund.

The Department of Insurance

The Department of Insurance delays in sending collection letters and has not established stronger collection procedures to use after three unsuccessful collection letters have been sent. We examined 44 invoices relating to various types of billings; 24 from the June 1985 unpaid invoice listing and 20 from the January 1986 listing of invoices outstanding over 120 days. For the 29 invoices for which collection letters were sent, the average time period between the invoice date and the first collection letter and between each subsequent collection letter was approximately 172 days. For the 20 invoices we reviewed from the January 1986 listing, all the required collection letters had been sent for only six. Furthermore, the department has established no collection procedures to use after sending the three letters.

These delays exist because the department has placed a low priority on collecting receivables and because both the accounting section and the legal division believed it was the other's

responsibility to collect receivables. As a result of the department's poor collection procedures, the State has lost interest revenue of approximately \$3,500 and, as of February 1986, has not yet collected \$59,800 that has been outstanding for over seven months.

The Department of Industrial Relations

At the Department of Industrial Relations, we tested 50 invoices for various types of fees and found, for the 34 items for which collection letters were sent, an average of 95 days between the invoice due date and the first collection letter and between each subsequent collection letter. In addition, 11 of the items we tested required collection letters, but no letters were sent. As of June 30, 1985, the outstanding invoices for these various fees amounted to approximately \$3,750,400. In addition, we determined that the department had not assessed penalty fees on long-outstanding receivables for elevator inspections. The California Labor Code specifies that if payment is not remitted within 60 days, a penalty of 100 percent of the fee will be assessed.

According to the chief of the Division of Administration, the delays in sending collection letters occurred because the employee responsible for sending the collection letters was on leave and her duties were not reassigned. As a result, for the invoices we tested, the State has lost approximately \$500 in interest earnings, has determined that \$9,700 is uncollectable, and had not yet collected

\$2,700 that, as of March 1986, was outstanding over 11 months. According to the senior accounting officer, the department did not assess penalty fees because the department had not yet corrected its reporting system to identify when penalties should be charged. As of June 1985, the department did not bill for or collect \$117,500 in penalties for the late payment of fees. In October 1985, the department detected the reporting system error and is now assessing penalties on delinquent payments for elevator inspections.

Department of Forestry

The Department of Forestry has lost interest earnings related to amounts owed for the cost of fighting fires because the department does not send initial follow-up letters promptly. We examined 40 invoices for which at least one follow-up letter was necessary and found that only ten of these letters were sent and that they were sent an average of 59 days after the invoice due date. Since the department's policy is not to send initial follow-up collection letters until 60 days after the original billing is sent, we computed lost interest income on current outstanding receivables from this date. These delays in sending collection letters contributed to the State's losing over \$21,000 in interest revenue in fiscal year 1985-86. As of April 1986, the department has not collected approximately \$344,000 that was outstanding for six months. One reason that the department has long-outstanding receivables is that it has not established a procedure with the State Controller's office to offset assistance

payments made by the State to counties that are delinquent in paying their bills for fighting forest fires.

California State University and the  
Department of Industrial Relations

The collection procedures for delinquent student fees at the California State University (CSU) campuses we reviewed were inadequate. At CSU-Long Beach, we examined 65 invoices; 35 were selected from a fiscal year 1984-85 unpaid billing list and 30 from a fiscal year 1983-84 unpaid billing list. As of March 1986, 15 of the fiscal year 1984-85 billings and all 30 of the fiscal year 1983-84 billings were still outstanding. At CSU-Los Angeles, we tested 50 invoices and, of the 25 invoices for which collection letters were sent, there was an average of 96 days between an invoice due date and the first collection letter and between each subsequent collection letter. At the California Polytechnic State University at San Luis Obispo (CAL POLY), of the 50 invoices we tested, 29 required follow-up, and the campuses initiated follow-up on only 16. At San Diego State University (SDSU), we reviewed 30 long-outstanding receivables, including 24 billings made directly to students and 6 billings made to organizations sponsoring students. The 4 initial follow-up collection letters that were sent on the latter billings were sent an average of 231 days after the initial billing.

Management representatives of the four campuses we visited stated that the cause of these delays, at least in part, was the lack

of an automated system to prepare collection notices when needed. As a result, management must divert resources from other high priority tasks. However, the campuses prevent students from registering for subsequent classes and rely on the Franchise Tax Board to offset future income tax refunds. As a result of placing a low priority on collection procedures, as of March 1986, the CSU-Long Beach and SDSU campuses had not yet collected approximately \$167,600 related to 1983-84 and prior fiscal years. In addition, for those invoices we tested, the CSU-Long Beach has lost interest earnings related to these monies of approximately \$16,300 as of March 1986, and the SDSU has lost interest earnings of \$15,200 as of June 1985. Also, for those invoices we tested, the CSU-Los Angeles and CAL POLY campuses had not yet collected \$34,500 outstanding at June 1985 and lost interest earnings as of March 1986 of \$4,100 and \$900, respectively, related to these monies.

The Department of Industrial Relations has two divisions that use separate procedures to collect outstanding receivables from the same employer. The Division of Administration collects fees related to claims against the Uninsured Employers' Fund. The Division of Labor Standards Enforcement collects penalty fees from employers who do not comply with various Labor Code sections. In each of the 15 cases we examined, the Division of Administration had started collection procedures against an employer. In 4 of these cases, the Division of Labor Standards Enforcement had initiated collection procedures against

the same employer for separate amounts. This duplication of collection procedures results in an inefficient use of staff and may create poor relations with debtors.

In addition, at both the Department of Industrial Relations and the CSU-Los Angeles, reports used to identify how long invoices remain unpaid were incorrect. These reports should categorize unpaid invoices according to the amount of time between the invoice date and the report date. According to the senior accounting officer at the Department of Industrial Relations, the department's report was inaccurate because the date of the invoice was incorrectly entered into the computer before the listing was printed. At the CSU-Los Angeles, we were told that the inaccuracies occurred because there was a system error in the computer. Because of errors in these reports, they cannot be used effectively by management to monitor unpaid billings.

#### Delays in Depositing Cash Receipts

The Department of Insurance, the Public Utilities Commission, the California State University, and the Department of Housing and Community Development did not promptly deposit cash receipts in fiscal years 1984-85 and 1985-86. As a result, the State lost an estimated \$464,000 in interest earnings. Some of these departments delay in depositing cash receipts because they review applications or other remittance forms for complete accuracy before depositing the related cash receipts. Departments should first determine that the amount

shown on invoices agrees with the cash received and deposit the cash by the day following the date of receipt. Later, applications or other remittance forms should be reviewed for accuracy.

SAM Section 8030.1 requires that cash receipts totaling \$5,000 or more be deposited on the day they are received unless it is not practical to deposit them before the bank closes. In this case, the cash should be deposited the next working day.

Department of Insurance

The Department of Insurance takes up to five workdays to deposit cash receipts during its peak period from January through May. We observed that cash received February 21, 1986, was not deposited as of February 28, 1986. The head cashier stated that this was typical for peak workload periods. During these peak months, there is an increase in the number of cash receipts because renewal fees for insurance agents and insurance companies are due in April and because quarterly premium taxes are due in March. The delay in depositing cash receipts occurs because license fees are matched with an invoice and then processed through a cash register before the cash is deposited into the bank. Also, delays occurred because all renewal fees were due in April instead of throughout the year as they will be during fiscal year 1986-87. If the department delayed five days in depositing all cash receipts during the peak period in fiscal year 1984-85, the State lost approximately \$344,500 in interest revenue.

Public Utilities Commission

The Public Utilities Commission delayed an average of seven days in depositing cash receipts during peak workload periods. Peak workloads occur each quarter when business utility and transportation fees are received. The delay in depositing cash receipts occurred because cash receipt information is entered into the accounting system and collection reports are produced before the cash is deposited into the bank. As a result of delays in the 30 items we tested from fiscal year 1984-85, the State lost \$6,300 in interest revenue. If the department consistently delayed an average of seven days in depositing receipts through fiscal year 1984-85, the State lost approximately \$93,100 in interest revenue.

California State University

During our visits to the California State University campuses, we were informed that some campuses delay in depositing registration fees because university personnel verify registration data before the cash is deposited. This information is consistent with observations made by auditors in the Office of the Auditor General who visited campuses during past registration periods. To determine the extent of interest losses due to this procedure, we obtained listings of California State University bank deposits from the State Controller, and we obtained registration dates from each university registrar. We determined that significant deposits were being made two to three weeks

after the final registration date. We found that some, but not all, of these deposits were for registration fees. Although we were unable to determine the extent of loss to the State resulting from delays in depositing registration fees, we believe the systemwide losses may be significant.

Department of Housing  
and Community Development

In the 51 deposits we tested, the Department of Housing and Community Development delayed an average of four days in depositing cash receipts for registration and titling fees that are not renewals and occupational licensing fees. The delay occurred because the registration of licensing information accompanying the fees is reviewed for accuracy and completeness before the cash is deposited. If the department delayed four days in depositing cash receipts for the two fee types throughout the 1985 calendar year, the State lost approximately \$26,400 in interest revenue. According to the chief of the Division of Administration, the department's present system cannot ensure prompt deposits because of the large number of transactions and the need to track detailed data on the remittance advice for refunding and licensing purposes. The department's analysis indicates that, with its present data processing system, it cannot justify the cost of separating the checks from the remittance advices. The department is presently evaluating new data processing systems that may speed the review and depositing processes.

## CONCLUSION

The Financial Integrity and State Managers Accountability Act of 1983 requires department directors to evaluate internal accounting and administrative controls and to issue reports, including reviews of cash management; however, some state agencies do not follow sound cash management practices. For instance, of the 11 state agencies we reviewed, 2 of these agencies did not bill for receivables in the manner prescribed by established guidelines. Also, 4 of these state agencies either did not perform collection procedures or did not perform these procedures according to established guidelines. Furthermore, 4 of these agencies did not deposit funds on the day they were received or on the day after. As a result of inadequate cash management practices, at these 11 state agencies alone, the State lost an estimated \$664,100 in revenues, penalty fees, and interest earnings during fiscal years 1984-85 and 1985-86. Furthermore, these agencies had not yet collected an estimated \$608,600 that had been owed for six months or more.

## RECOMMENDATIONS

To reduce delays in preparing billings at the California State University at Long Beach, university management should consider installing an automated system similar to the systems that are effectively used at other campuses.

The Department of Insurance should ensure that annual renewal fee billings for certificates of authority are sent 30 days before payments are due and should review invoices carefully to determine that they contain the correct billing information.

The Department of Insurance, the Department of Industrial Relations, the Department of Forestry, and the California State University should establish and implement formal collection procedures to provide the greatest likelihood that past due receivables will be collected. These procedures, as recommended by the State Administrative Manual, should include but not be limited to sending collection letters at 30-day intervals after the invoice due date, establishing offset procedures with the Franchise Tax Board and other state agencies, and, if necessary, initiating court action to recover the debt. In addition, these agencies should impose penalty charges on late payments.

The California State University should comply with the California Administrative Code, Title 5, Section 42381, which allows a campus to withhold current services to students for nonpayment of fees.

Also, at the Department of Industrial Relations and the California State University at Los Angeles, reports used to

identify how long billings remain unpaid should be reviewed for accuracy to ensure the effectiveness of using the report to monitor unpaid billings.

Additionally, the Department of Industrial Relations should consolidate its collection activities into one centralized unit to increase the efficiency and effectiveness of its collection activities. In addition, the department should also review its reporting system regularly to ensure that it assesses penalty fees on delinquent invoices, as mandated by the Labor Code.

To ensure that the State earns the maximum interest on cash received, the Department of Insurance, the Department of Housing and Community Development, the Public Utilities Commission, and the California State University should first determine that the amount shown on invoices agrees with the amount of cash received and that cash is deposited on the day of receipt, or, if not practical, by the day following the date of receipt. Later, applications and other remittance forms should be reviewed for accuracy and entered into the accounting records.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,

  
for THOMAS W. HAYES  
Auditor General

Date: July 28, 1986

Staff: Philip Jelicich, CPA, Audit Manager  
Mark Lamb, CPA  
Scott Allison  
Perla Netto-Brown  
Kathleen Perry  
Mary Cancilla

APPENDIX

**DEFICIENCIES NOTED DURING REVIEW**  
**DISTRIBUTION BY STATE AGENCY**

<u>Agency</u>	<u>Delays in Billing for Receivables</u>	<u>Inadequate Collection Procedures</u>	<u>Delays in Depositing Cash Receipts</u>
California State University	X	X	X
Forestry, Department of		X	
Housing and Community Development, Department of			X
Industrial Relations, Department of		X	
Insurance, Department of	X	X	X
Public Utilities Commission			X

1120 N Street  
Sacramento  
95814  
(916) 445-1331

GEORGE DEUKMEJIAN  
GOVERNOR OF  
CALIFORNIA



Alcoholic Beverage Control  
Banking  
Corporations  
California Highway Patrol  
California Housing Finance  
Agency  
Commerce

Insurance  
Housing and Community  
Development  
Motor Vehicles  
Real Estate  
Savings and Loan  
Transportation  
Teale Data Center  
Office of Traffic Safety

**BUSINESS, TRANSPORTATION AND HOUSING AGENCY**

July 17, 1986

Mr. Thomas W. Hayes  
Auditor General  
660 'J' Street, Suite 300  
Sacramento, CA 95814

• Dear Mr. Hayes:

Please find enclosed our comments on your report entitled "State Agencies Need to Improve Their Cash Management Procedures." Only comments from the Department of Housing and Community Development and the Department of Insurance are enclosed as issues raised in the report did not pertain to Alcoholic Beverage Control and Savings and Loan.

Should you need any further information, please do not hesitate to contact me at 445-1332.

Sincerely,  
A handwritten signature of John Geoghegan, which is a stylized, cursive 'J' followed by a long, sweeping line.  
JOHN GEOGHEGAN  
Secretary

# Memorandum

**To :** John K. Geoghegan  
Secretary  
Business, Transportation  
and Housing Agency  
1120 N Street, Suite 2101  
Sacramento, California 95814

**Date :** July 15, 1986

**File No.:**

**From :** Jay R. Stroh

**Subject:** Auditor General's Audit Report

In response to the draft audit report of the Auditor General entitled "State Agencies Need to Improve Their Cash Management Procedures", the Department of Alcoholic Beverage Control is not mentioned in the report as being deficient in any of the areas reviewed. Therefore, we have no formal comments.

Please contact me or Anthony Nieto, Assistant Director, at 5-5621 if you have any questions.



Jay R. Stroh  
Director

JRS:gp

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**  
921 Tenth Street  
Sacramento, CA 95814



July 17, 1986

Thomas W. Hayes, Auditor General  
Office of the Auditor General  
660 J Street, Suite 300  
Sacramento, CA 95814

RE: Auditor General Draft Report F-506

Dear Mr. Hayes:

The Department of Housing and Community Development generally agrees with the findings of the Auditor General report entitled "State Agencies Need to Improve Their Cash Management Procedures." The Department also agrees with the principle leading to the Auditor General recommendation that all deposits be made within the same day or the following day in order to maximize interest income; however, the Department believes that this principle must be tempered by whether the faster deposit of receipts is actually cost beneficial to the State.

The report indicates there is an average four-day delay in the deposit of certain types of cash receipts. As indicated in the report, the large volume of transactions and the need to maintain detailed data from each check make it impractical to separate the check prior to processing the transaction. The cost of separating the checks, photocopying the information, and attaching the data to the applications would far exceed the estimated \$26,400 in additional interest revenue which could be generated by earlier deposit.

The Department will be making changes to the data processing system which processes the transactions; it is expected these changes will permit deposit of all transactions within the same day or following day. However, the cost of implementation of the new system enhancements to permit early deposit will need to be evaluated to determine whether the interest saved will make the changes cost beneficial.

Sincerely,

*Christine Diemer*  
Christine M. Diemer  
Interim Director

July 17, 1986

Mr. Thomas W. Hayes  
Auditor General  
Office of the Auditor General  
660 'J' Street, Suite 300  
Sacramento, CA 95814

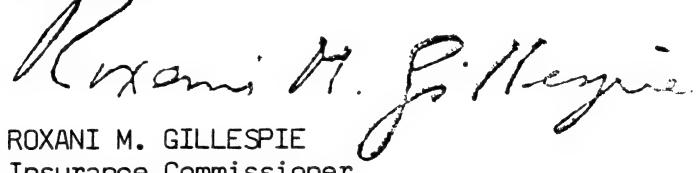
Dear Mr. Hayes:

Pursuant to your request, attached is a report from the Administration Division involving the findings in your audit of our cash management procedures.

Mr. John Geoghegan, Secretary of Business, Transportation and Housing Agency, has asked me to respond to you directly.

If you have any questions, please give me a call.

Sincerely,



ROXANI M. GILLESPIE  
Insurance Commissioner

RMG:jk  
Enclosure

cc: Mr. John Geoghegan  
Secretary, Business, Transportation & Housing Agency

FINDING: The Department of Insurance mailed out the invoices for the 1986 renewal fees for company Certificates of Authority (CA) one or two days before the March 1 due date required by the Insurance Code.

RESPONSE: The invoices for the CA were delayed due to the fact that newly ordered invoices had a new format. This necessitated the reprogramming of the automated billing system. However, by March 31, 1986, \$281,135 was collected. Another \$91,195 was collected in the month of April for a total of \$371,330 or \$92.12% of the \$404,194 amount billed.

The delinquent date on the CA invoices was arbitrarily changed to April 15 during the programming of the initial invoice. This was discovered by the legal personnel who, in turn, informed the EDP personnel. The subsequent CA invoices were changed to show the proper delinquent date of April 1 to comply with the Insurance Code.

FINDING: As a result of the department's poor collection procedures, the State has lost interest revenue of approximately \$3,500 and, as of February 1986, has not yet collected \$59,800 that has been outstanding over seven months.

RESPONSE: Revenue of over 831 million dollars is collected by the department annually from insurance taxes and 25 million in revenue. The \$59,800 amounts to .0070% of the total amount collected.

The legal division, in conjunction with accounting, recently held an administrative hearing on an outstanding invoice of \$3,580 which was successfully collected. It is anticipated that administrative hearings will be held to collect other outstanding accounts receivables.

A request for the Relief from Accountability - Blanket Approval, Goverment Code Section 13943.2 for the write-off of receivables under \$50.00 was made to the State Board of Control on May 6, 1986. The request has not been acted upon by the Board due to the tort claims being handled from this past winter floods.

The department is unable to go thru the offset process established by the Franchise Tax Board because the Insurance companies pay the in-lieu insurance tax rather than an income tax.

FINDING:

The Department of Insurance takes up to five working days to deposit cash receipts during its peak period from January thru May. The delay in depositing cash receipts because license fees are matched with an invoice and then processed through a cash register before the cash is deposited into the bank. If the department delayed five days in depositing all cash receipts during the peak period in fiscal year 1984-85, the State lost approximately \$344,500 in interest revenue.

RESPONSE:

It has been our accounting practice to give cashiering a copy of the invoice at the time of mailing an invoice. It is more expedient to match the check to the invoice before cashiering the money thru the cash register. Two copies of the invoices are sent for each billing with a request to return one copy of the invoice with payment. When individuals or companies do not return a copy of the invoice, it is necessary to verify and credit the proper payee. Many insurance companies have similar names, some with common ownership. The address of the remitting company may not be the same as the company being invoiced. In addition, a parent company may be remitting for several companies with separate CAs. It would be unproductive to cashier the check under an insurance company and send an uncleared collection letter to that company asking the payor what or where to apply the balance.

The department's cash registers are not idle while other staff compares the check to the cashier's copy of the invoice for proper credit.

It should be noted that checks for insurance taxes are cashiered the day received or the next day. The large dollar checks have the highest priority in remitting the funds to the Treasurer.

The procedure of having the daily deposit credited to our account more timely was changed. The bank deposit slip is in five part carbonless paper. The remitter's copy was retained and the rest were sent along to the bank processing center via courier each day. There were several days between the time the initial deposit and the time the bank verified and sent the stamped copy to the Treasurer's office for credit. We now lift the Treasurer's copy and forward it to the Treasurer at the time of our remittance advice.

As pointed out by your auditors, the situation of back logs should not exist in 1986-87 due to the even flow of license renewals being sent out over the twelve month period.

The stated amount of interest lost of \$344,500 was the result of taking the peak period of quarterly and annual insurance taxes amounting \$ 514,237,445 and the license renewals and annualizing the potential loss. In reality, the dollar volume during this period of delayed deposits is relatively small. \*

The employee work hours during the peak renewal period were staggered to make optimum use of equipment.

\* Auditor General's Comment: The department misunderstands the calculation. The lost interest is not an annualized amount encompassing nonpeak periods. During the peak period of January through May 1985, the department deposited approximately \$248 million. During the 1984-85 fiscal year, the State earned approximately \$277.78 per day for each million it invested. We computed the lost interest in the following way: \$277.78 x \$248 million x 5 (average days not invested) = \$344,447.

# THE CALIFORNIA STATE UNIVERSITY

BAKERSFIELD - CHICO - DOMINGUEZ HILLS - FRESNO - FULLERTON - HAYWARD - HUMBOLDT  
POMONA - SACRAMENTO - SAN BERNARDINO - SAN DIEGO - SAN FRANCISCO - SAN JOSE

LONG BEACH - LOS ANGELES - NORTHRIDGE  
SAN LUIS OBISPO - SONOMA - STANISLAUS



OFFICE OF THE CHANCELLOR  
(213) 590- 5744

July 21, 1986

Mr. Thomas W. Hayes, Auditor General  
State of California  
Office of the Auditor General  
660 J Street, Suite 300  
Sacramento, California 95814

Dear Mr. Hayes:

Your draft report "State Agencies Need to Improve their Cash Management Procedures" has been referred to me for review, and response to issues pertaining to the California State University.

The California State University is in general accord with the recommendations and findings. However, we have a question regarding an estimated loss of \$9,500 in interest, due to delay in billing for student fees. Using the data contained in the sample, we estimated that the amount of fees to be billed would be around \$46,400. This means that to generate \$9,500 for interest in 80 days, the State would have to receive a huge return on investment. \*

In response to one of the recommendations, we plan to remind the campuses of the need to deposit monies collected, as outlined in the State University Administrative Manual.

We are also in the process of developing an automated billing and receiving system that can be installed at all CSU campuses. This would facilitate the follow-up of delinquent papers, and would also provide automatic aging of the receivables. We hope to have this system up for testing early in 1987 and ready for installation in the 1987-88 F.Y.

Sincerely,

A handwritten signature in black ink, appearing to read "Edmond Macias".

Edmond Macias  
Assistant Vice Chancellor  
Business Affairs

EM:ba

cc: Dr. W. Ann Reynolds  
Mr. D. Dale Hanner

\* Auditor General's Comment: We examined Fall '85 semester invoices representing 39 percent (\$168,134/\$431,076) of billed student fees and found that the average delay in billing for student fees was 79 days. Based on the average delay of 79 days, the lost interest on \$431,076 would be approximately \$9,500. We computed the lost interest in the following way:  
400 \$431,076 x 79 days x  $\frac{10\%}{360}$  = \$9,460.

**DEPARTMENT OF FORESTRY**  
1416 NINTH STREET Mailing - P.O. Box 944246  
SACRAMENTO, CA ~~XXXX~~ Address: Sacramento, CA 94244-2460  
(916) 445-3976



A3

July 18, 1986

Mr. Thomas W. Hayes  
Auditor General  
660 J Street, Suite 300  
Sacramento, CA 95814

Dear Mr. Hayes:

This letter serves as our response to you as requested by Gordon K. Van Vleck, Secretary for Resources, to the report "State Agencies Need to Improve Their Cash Management Procedures".

The Department of Forestry has undergone changes in policies regarding initial followup collection letters for services rendered by the Department. Previously, these collection letters were sent out 60 days subsequent to the initial billing. Currently, as a result of the change in policy, initial billings are sent 30 days after the original bill.

In response to the issue of interest, the Department concurs that there is an interest revenue loss to the State. However, no relevant computational data are provided so we are unable to comment on the magnitude of the loss. We would like to point out that as of April 1986, the Department had been unable to collect approximately \$344,000 in delinquent billings in excess of 180 days. However, this figure must be compared to \$22,145,000 in total invoices billed out over the same period; representing a figure of 1.5% in late collections. We believe this figure to be comparatively low in terms of late collections, but we also realize that 0% in delinquent collections is optimal.

The Department is aware that procedures can be established with the State Controller's Office to offset payments made by the State to counties that are delinquent in compensating the Department for firefighting services. In light of our excellent working relationship with the counties in addition to our low delinquency percentage, we prefer to continue utilizing our current collection method and employ the offset procedure only as a last resort.

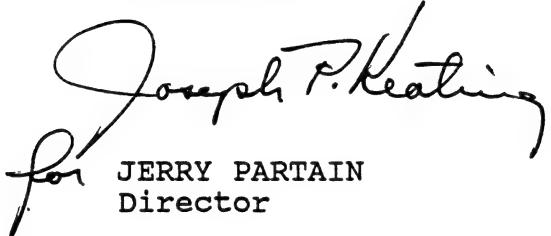
Mr. Thomas W. Hayes

-2-

July 18, 1986

I appreciate the opportunity to respond to the report and if there are further questions or comments, please contact Deputy Director for Management Services Joe Keating at (916) 445-3894.

Sincerely,

  
for JERRY PARTAIN  
Director

rb

## DEPARTMENT OF INDUSTRIAL RELATIONS

SECRETARY OF INDUSTRIAL RELATIONS  
1121 L STREET, SUITE 803  
SACRAMENTO, CA 95814



July 21, 1986

Thomas W. Hayes, Auditor General  
Office of the Auditor General  
660 "J" Street, Suite 300  
Sacramento, California 95814

Dear Mr. Hayes:

The following constitutes the Department of Industrial Relations response to the statewide draft report by the Office of the Auditor General F-506 titled "State Agencies Need to Improve Their Cash Management Procedures", dated July 1986. Because the report addresses issues at several state agencies this response is in sequence by page number;

Page 9

The follow-up action on delinquent accounts receivables was delayed because of the absence of a critical employee due to major surgery. Other workload and the rotation of staff precluded a reassignment of this function at that time. Currently, duties have been reassigned to assure that penalty notices are submitted timely.

On October 1985, the Accounting Office discovered that the process used to generate penalty letters for Pressure Vessels omitted a procedure to also generate penalty letters for the Elevator Special Funds. The omission has been corrected and procedures have been implemented to include penalty assessments on delinquent payments for elevator inspections.

Page 12

Our current procedures necessitate debtor contact by both the Division of Administration and the Division of Labor Standards Enforcement (DLSE) because of the different types of assessments involved. The Workers' Compensation Appeals Board (WCAB) adjudicates claims against employers who are not insured and with the Uninsured Employers Fund (UEF) who may be liable. When the amount of the claim is awarded and the debtor employer is unable to provide the employee benefits, direct demand is made against the UEF for payment. When payment is made by the UEF a copy of the award is then sent to the Collection Unit to attempt to recover amounts paid to the employee out of the UEF, including interest and penalties. The DLSE is also notified of the award and is

instructed to assess penalties in accordance with Labor Code Section 3722(b) (1) or (2). In order to assess the penalties in accordance

with the Labor Code, the DLSE must determine the number of individual employees at the time of injury and ascertain the amount of penalty based on that data. This determination entails resources and procedures not currently available to the Division of Administration, Collections Unit.

The Department is currently reviewing its collection procedures to determine where economies and efficiencies can be made through a consolidation of efforts in certain divisions. Appropriate action will be taken upon completion and evaluation of this review.

Sincerely,

  
RON RINALDI  
Director

RTR:hvh

State of California

M E M O R A N D U M

Date: July 18, 1986

To: Mr. Thomas W. Hayes  
Office of the Auditor General  
660 J Street, Suite 300  
Sacramento, CA 95814

From: Public Utilities Commission - *Victor Weisser*  
Executive Director

Subject: Report by the Office of the Auditor General  
F-506 - "State Agencies Need to Improve Their  
Cash Management Procedures"

During peak workload periods, the Public Utilities Commission encounters some delay in depositing cash receipts resulting in lost of interest revenue for the state. The commission is currently addressing this problem in its feasibility study of the second phase of a three-phase, comprehensive plan for implementing office automation anticipated to be completed during fiscal year 1986-87.



## State and Consumer Services Agency

OFFICE OF THE SECRETARY  
915 Capitol Mall, Suite 200  
Sacramento, CA 95814

July 17, 1986

Thomas W. Hayes  
Auditor General  
660 J Street, Suite 300  
Sacramento, CA 95814

Dear Mr. Hayes:

Thank you for the opportunity to review a draft copy of your report entitled "State Agencies Need To Improve Their Cash Management Procedures" (No. F-506).

Two Boards and one Bureau within the Department of Consumer Affairs were included in your review: the Contractor's State License Board, the Board of Medical Quality Assurance, and the Bureau of Automotive Repair. Since the report does not note any deficiencies nor make any recommendations regarding these units, I must assume that the Department of Consumer Affairs is doing a good job.

Thank you again for your courtesy.

Sincerely,

A handwritten signature in black ink that reads "John M. Grow".

JOHN M. GROW  
Undersecretary

JMG:as

cc: Marie Shibuya-Snell, Director  
Department of Consumer Affairs

---

DEPARTMENTS AND PROGRAMS OF THE AGENCY

---

-41-

Building Standards Commission • Consumer Affairs • Fair Employment & Housing • Fire Marshal  
Franchise Tax Board • General Services • Museum of Science & Industry • Personnel Board  
Public Employees' Retirement System • Teachers' Retirement System • Veterans Affairs

cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
State Controller  
Legislative Analyst  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
Capitol Press Corps